



Keyware

Smart Cards-Security / Belgium

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Strong revenue growth, but profitability still impacted by the transition phase

Earnings/sales releases - 16/10/2018

Currently in a transition year, the group has reported growing H1 revenue but profit, although positive, was lower than in H1 17. Keyware's revenue was pushed by the Authorisations division, which is still performing well, and the Software division, which has started to show its potential.

Fact

Keyware reported +8.1% yoy revenue growth to €9,742k (+€732k yoy). The Terminal division's revenue decreased by 12% yoy, from €4,588k in H1 17 to €4,039k in H1 18. This was offset by the main revenue contributor, the Authorisations division, which reported €4,381k revenue (+6% yoy). The Software division showed the most impressive revenue growth (+1,512% yoy) to €1,322k, which is explained by the integration of Magellan that was not yet consolidated in H1 17.

The gross margin significantly reduced compared to the previous year (-11bp yoy), with a 58% decrease in profit before taxes (€660k). This was explained by the lower financial results (€-69k) and more by the lower operating profit (-74.4% yoy) to €294k. The integration of Magellan in the H1 18 figures has pushed down the results, due to additional staff costs and services and higher depreciation and amortisation costs.

Analysis

A decreasing Terminal division offset by a growing Authorisations activity

The Terminal division has followed the 2017 decreasing trend and will continue further. The competition remains strong and e-commerce developments directly impact the number of terminal sales. This rising penetration of internet and mobile payments has lowered the number of POS terminals in circulation.

While the number of terminals is going down, the number of transactions on these terminals continues growing. This explains the revenue growth in the Authorisations division. The significant number of non-cash transactions and the democratisation of contactless payments largely contribute to this trend.

Strong development of the Software division

The transition phase from a hardware supplier to a software developer is going well, with the progressive integration of Magellan (H2 17) and EasyOrder (H1 18). Although the results have been affected by higher costs linked to these two recent acquisitions, we expect that this will be largely compensated by the software sales growth in the following years. This division currently represents a niche market with significant growth potential that will be a lever to boost profitability.

Impact

We have slightly increased our expectations for FY 18 and the following years, as the consolidation of Magellan and EasyOrder will inflate our top-line expectations. We believe that, despite start-up costs negatively impacting the group in the short term, the transition phase will not take long and Keyware should be able to improve its profitability.



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AlphaValue is contracted by Keyware to provide equity research on Keyware, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

Buy Upside: 70.9%

Target Price (6 months) € 1.98

Share Price € 1.16

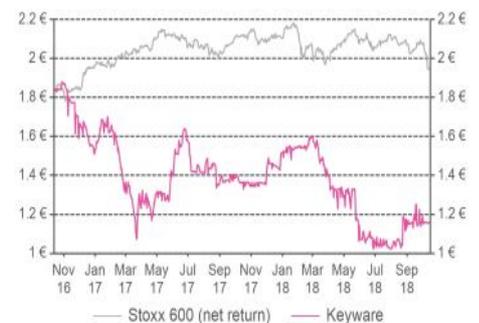
Market Cap. €M 24.5

Price Momentum **UNFAVORABLE**

Extremes 12Months 1.02 ▶ 1.60

Bloomberg KEYW BB Equity

Reuters KEYW.BR

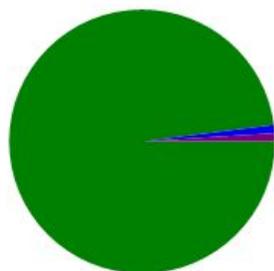

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PERF	1w	1m	3m	12m
Keyware	0.00%	-2.48%	12.2%	-14.9%
IT Hardware	-3.11%	-4.65%	-4.06%	14.9%
STOXX 600	-3.47%	-4.91%	-6.68%	-8.20%

Last updated: 15/10/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	8.15	10.9	6.42	5.86
Dividend yield (%)	1.16	0.00	0.00	0.00
EV/EBITDA(R) (x)	5.11	7.01	3.71	3.72
Adjusted EPS (€)	0.21	0.13	0.18	0.20
Growth in EPS (%)	-28.2	-38.8	38.9	9.61
Dividend (€)	0.02	0.00	0.00	0.00
Sales (€th)	18,721	18,730	20,227	21,474
EBIT margin (%)	17.0	6.10	7.85	11.3
Attributable net profit (€th)	3,101	1,174	1,729	2,431
ROE (after tax) (%)	12.4	4.36	5.66	6.84
Gearing (%)	16.3	21.1	14.7	6.80

[Company Valuation](#) - [Company Financials](#)

Sales by Geography



Belgium	(98.0%)
Netherlands	(1.0%)
Other	(1.0%)

Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€th	18,730	20,227	21,474
Change in sales	%	0.05	7.99	6.17
Change in staff costs	%	32.9	45.7	6.82
EBITDA	€th	5,097	7,178	6,553
EBITDA(R) margin	%	27.2	35.5	30.5
Depreciation	€th	-919	-2,023	-966
Underlying operating profit	€th	4,178	5,156	5,587
Operating profit (EBIT)	€th	2,319	2,800	3,640
Net financial expense	€th	-269	-329	-167
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	-854	-741	-1,042
Equity associates	€th	-22.0		
Minority interests	€th			
Adjusted attributable net profit	€th	3,033	4,085	4,378
NOPAT	€th	2,903	3,609	3,911

Cashflow Statement

EBITDA	€th	5,097	7,178	6,553
Change in WCR	€th	-1,850	-2,000	-1,811
Actual div. received from equity holdi...	€th	400	0.00	0.00
Paid taxes	€th	0.00	-741	-1,042
Exceptional items	€th			
Other operating cash flows	€th	-230	-142	-186
Total operating cash flows	€th	3,417	4,296	3,514
Capital expenditure	€th	-696	-324	-644
Total investment flows	€th	-3,826	-324	-644
Net interest expense	€th	-269	-329	-167
Dividends (parent company)	€th	0.00	-659	-438
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	-174	-400	
Total financial flows	€th	3,144	-3,796	-4,665
Change in cash position	€th	2,735	176	-1,795
Free cash flow (pre div.)	€th	2,452	3,643	2,703

Per Share Data

No. of shares net of treas. stock (year...	Th	20,804	19,793	19,793
Number of diluted shares (average)	Th	23,328	22,619	22,113
Benchmark EPS	€	0.13	0.18	0.20
Restated NAV per share	€			
Net dividend per share	€	0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.17	35%	■ Gemalto
NAV/SOTP per share	€ 2.18	20%	■ Ingenico
EV/Ebitda	€ 2.32	20%	
P/E	€ 2.08	10%	
Dividend Yield	€ 0.00	10%	
P/Book	€ 2.32	5%	
TARGET PRICE	€ 1.98	100%	

NAV/SOTP Calculation

Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€th	7,993	7,753	7,521
Total intangible	€th	14,672	14,232	13,805
Tangible fixed assets	€th	992	1,042	1,094
Financial fixed assets	€th	150		
WCR	€th	19,197	21,197	23,007
Other assets	€th	932	904	877
Total assets (net of short term liab.)	€th	35,943	37,374	38,783
Ordinary shareholders' equity	€th	27,433	33,701	37,376
Quasi Equity & Preferred	€th			
Minority interests	€th			
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th	230		
Total provisions for risks and liabilities	€th	230	0.00	0.00
Tax liabilities	€th	2,023		
Other liabilities	€th			
Net debt (cash)	€th	6,257	3,673	1,407
Total liab. and shareholders' equity	€th	35,943	37,374	38,783

Capital Employed

Capital employed after depreciation	€th	35,011	36,470	37,906
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Profits & Risks Ratios

ROE (after tax)	%	4.36	5.66	6.84
ROCE	%	8.29	9.90	10.3
Gearing (at book value)	%	21.1	14.7	6.80
Adj. Net debt/EBITDA(R)	x	1.23	0.51	0.21
Interest cover (x)	x	17.0	15.7	33.5

Valuation Ratios

Reference P/E (benchmark)	x	10.9	6.42	5.86
Free cash flow yield	%	8.35	15.9	11.8
P/Book	x	1.07	0.68	0.61
Dividend yield	%	0.00	0.00	0.00

EV Calculation

Market cap	€th	29,369	22,960	22,960
+ Provisions	€th	230	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	6,257	3,673	1,407
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	150	0.00	0.00
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	35,706	26,633	24,367
EV/EBITDA(R)	x	7.01	3.71	3.72
EV/Sales	x	1.91	1.32	1.13

Analyst : Laura Parisot, Changes to Forecasts : 15/10/2018.